

DAVID M. SIEGAL
Assistant United States Attorney

Before: HONORABLE KEVIN NATHANIEL FOX
United States Magistrate Judge
Southern District of New York

UNDER SEAL

UNITED STATES OF AMERICA : COMPLAINT

-v-

-v- : Violations of
18 U.S.C. §§ 371, 287, 1001,
JOHN ANGELIDES, : 1343, 1503, 1519, and 2

JOHN ANGELIDES, : 1343, 1503, 1519,
JOHN DOTSON,
OSCAR ALVAREZ, and : COUNTY OF OFFENSE
GARY BLUM, : NEW YORK

Defendants.

STATE OF NEW YORK)
COUNTY OF NEW YORK) ss. :
SOUTHERN DISTRICT OF NEW YORK)

COURTNEY FOSTER, being duly sworn, deposes and says that she is a Special Agent with the Federal Bureau of Investigation ("FBI"), and charges as follows:

COUNT ONE

1. From at least in or about the Fall 1999, through at least in or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate and agree together and with each other to violate the laws of the United States, to wit, Title 18, United States Code, Sections 287, 1001, and 1343.

2. It was a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly, having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations and promises, for the purpose of executing such scheme and artifice and

attempting so to do, would and did transmit and cause to be transmitted by means of wire, radio and television communication in interstate and foreign commerce, writings, signs, signals, pictures and sounds for the purpose of executing such a scheme and artifice, in violation of Section 1343 of Title 18, United States Code.

3. It was further a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies thereof, knowing such claims to be false, fictitious and fraudulent, in violation of Section 287 of Title 18, United States Code.

4. It was further a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, in a matter within the jurisdiction of the executive, legislative and judicial branch of the Government of the United States, unlawfully, willfully and knowingly, falsified, concealed and covered up by trick, scheme and device material facts, and made materially false and fraudulent statements and representations, and made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, in violation of Section 1001 of Title 18, United States Code.

OVERT ACTS

5. In furtherance of said conspiracy and to effect the illegal object thereof, the following overt acts, among others, were committed in the Southern District of New York and elsewhere:

a. On or about January 13, 2000, JOHN ANGELIDES, the defendant, sent by fax communication from Staten Island, New York, to Newark, New Jersey, a letter he signed on behalf of Connect 2 Internet Networks, Inc. ("C2I") stating to the St. Rocco Victoria School that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

b. In or about January 2000, JOHN ANGELIDES, the defendant, told an employee of the Association for the Help of Retarded Children who was in New York, New York, that it could participate in the Government E-Rate Program and incur no cost.

c. On or about January 18, 2000, JOHN ANGELIDES, the defendant, signed a letter on behalf of C2I stating to the St.

John Lutheran School in Queens, New York, that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

d. In or about January 2000, JOHN ANGELIDES and GARY BLUM, the defendants, signed a letter dated January 18, 2000, on behalf of C2I stating to the Islamic Elementary School in Queens, New York, that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

e. On or about January 12, 2001, GARY BLUM, the defendant, sent by fax communication to New York, New York, a letter on behalf of C2I stating to the Association for the Help of Retarded Children that it could participate in the Government E-Rate Program with "no liability" for the portion of the costs of the Program it was required to pay under program rules.

f. On or about July 30, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to New Jersey, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

g. On or about August 30, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

h. On or about September 7, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

i. On or about September 28, 2001, JOHN DOTSON, the defendant, created two checks in the approximate amounts of \$52,731 and \$2,268, respectively, payable to C2I, intending that they be used by his co-conspirators falsely to represent to the

Government that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program.

j. On or about October 10, 2001, JOHN ANGELIDES, the defendant, paid \$54,999 to JOHN DOTSON, the defendant, in reimbursement for monies that DOTSON paid to C2I on or about September 28, 2001, in order to create the false impression that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program.

k. On or about October 11, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

l. On or about October 22, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

m. On or about November 21, 2001, JOHN ANGELIDES the defendant, with the knowledge of GARY BLUM, and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I, was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

(Title 18, United States Code, Section 371.)

COUNT TWO

6. From at least in or about the Fall 1999, through at least in or about September 23, 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies

thereof, knowing such claims to be false, fictitious and fraudulent, to wit, claims for reimbursement from the E-Rate government funding program for services and equipment allegedly provided to the Children's Store Front School based on false representations as described below.

(Title 18, United States Code, Sections 287 and 2.)

COUNT THREE

7. From at least in or about the Fall 1999, through at least in or about November 21, 2001, in the Southern District of New York and elsewhere, JOHN ANGELIDES, OSCAR ALVAREZ, and GARY BLUM, the defendants, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies thereof, knowing such claims to be false, fictitious and fraudulent, to wit, claims for reimbursement from the E-Rate government funding program for services and equipment allegedly provided to the Association for the Help of Retarded Children based on false representations as described below.

(Title 18, United States Code, Sections 287 and 2.)

COUNT FOUR

8. In or about October 11, 2001, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, in a matter within the jurisdiction of the executive, legislative and judicial branches of the Government of the United States, unlawfully, willfully and knowingly, falsified, concealed and covered up by trick, scheme and device material facts, made materially false, fictitious and fraudulent statements and representations, and made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, to wit, false statements and concealment of material facts falsely representing that C2I was acting in compliance with the rules and regulations of the E-Rate government funding program regarding its claim for reimbursement related to the Children's Store Front School, as described below.

(Title 18, United States Code, Sections 1001 and 2.)

COUNT FIVE

9.) In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, in a matter within the jurisdiction of the executive, legislative and judicial branches of the Government of the United States, unlawfully, willfully and knowingly, falsified, made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, to wit, backdated invoices and a misleading contractual document falsely representing that C2I was acting in compliance with the rules and regulations of the E-Rate government funding program regarding its claim for reimbursement related to the Islamic Elementary School, as described below.

(Title 18, United States Code, Sections 1001 and 2.)

COUNT SIX

10. From at least in or about December 2001, through at least on or about June 6, 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, the defendant, unlawfully, willfully, knowingly and corruptly influenced, obstructed and impeded, and endeavored to influence, obstruct and impede, the due administration of justice, to wit, the defendant withheld from production to the grand jury the following documents, among others, that were required to be produced pursuant to a grand jury subpoena issued in the Southern District of New York:

Date	Description	Related School
1/11/2000	Letter from St. Rocco Victoria School to C2I, countersigned by JOHN ANGELIDES stating, <u>inter alia</u> , "in accepting the [C2I] proposal there is absolutely no cost to the school."	Saint Rocco Victoria School
1/14/2000	Letter from AHRC to JOHN ANGELIDES, stating, <u>inter alia</u> , "AHRC is absolved from any costs associated with the E-Rate proposal, (specifically, the 10% school costs)."	Association for the Help of Retarded Children

1/12/2001	Letter from GARY BLUM to Association for the Help of Retarded Children, stating, <u>inter alia</u> , "AHRC will have no liabilities for this portion of the costs."	Association for the Help of Retarded Children
1/18/2000	Letter signed by JOHN ANGELIDES and initialed by GARY BLUM from C2I to Islamic Elementary School, stating, <u>inter alia</u> , "It is our agreement that Islamic Elementary School will not be responsible for any cost in the proposal made to Islamic Elementary School by Connect2. . . . In accepting the Connect2 proposal, there is absolutely no cost to the school."	Islamic Elementary School
1/18/2000	Letter signed by JOHN ANGELIDES from C2I to St. John Lutheran School, stating, <u>inter alia</u> , "It is our understanding that St. John Lutheran School will not be responsible for any cost in the proposal made to St. John Lutheran School by Connect2. . . . It is our understanding that in accepting the Connect2 proposal, there is absolutely no cost to the school."	St. John Lutheran School

(Title 18, United States Code, Sections 1503 and 2.)

COUNT SEVEN

11. In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, and others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate and agree together and with each other to violate the laws of the United States, to wit, Section 1519 of Title 18, United States Code.

12. It was a part and an object of the conspiracy that JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, and others known and unknown, unlawfully, willfully and knowingly, altered, destroyed, concealed, covered up, falsified, and made false entries in records, documents, and tangible objects with the intent to impede, obstruct, and influence the investigation and proper administration of matters within the jurisdiction of departments and agencies of the United States, and in relation to and contemplation of such matters, in violation of Section 1519 of Title 18, United States Code.

OVERT ACTS

13. In furtherance of said conspiracy and to effect the illegal object thereof, the following overt acts, among others, were committed in the Southern District of New York and elsewhere:

a. In or about October 2002, JOHN ANGELIDES, the defendant, met with a school administrator from the Islamic Elementary School in Queens, New York, and gave that administrator backdated invoices and a purported contract intended to be used for purposes of falsely representing to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

b. On or about October 8, 2002, JOHN ANGELIDES, and OSCAR ALVAREZ, the defendants, met with school administrators from the Islamic Elementary School in Queens, New York, and urged those administrators to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

c. On or about October 9, 2002, JOHN ANGELIDES, the defendant, spoke over the telephone with a school administrator from the Islamic Elementary School who was in New York, New York, and urged that administrator to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

d. On or about October 10, 2002, JOHN ANGELIDES, the defendant, spoke over the telephone with a school administrator from the Islamic Elementary School who was in New York, New York, and urged that administrator to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

(Title 18, United States Code, Section 371.)

COUNT EIGHT

14. In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, the defendant, unlawfully, willfully and knowingly, altered, destroyed, concealed, covered up, falsified, and made false entries in records, documents, and tangible objects with the intent to impede, obstruct, and influence the investigation and proper administration of matters within the jurisdiction of departments and agencies of the United States, and in relation to and contemplation of such matters, to wit, attempted to persuade witnesses not to reveal to government auditors documents evidencing his fraudulent conduct related to the E-Rate government funding program, as described below.

(Title 18, United States Code, Sections 1519 and 2.)

The bases for my knowledge and for the foregoing charges are, in part, as follows:

15. I am a Special Agent with the FBI, and I have been involved personally in the investigation of this matter. I am familiar with the facts and circumstances set forth below from my personal participation in the investigation, including interviews I have conducted, my examination of reports and records, and my conversations with other law enforcement officers, including an undercover law enforcement agent. Because this affidavit is being submitted for the limited purpose of establishing probable cause, it does not include all the facts that I have learned during the course of my investigation. Where the contents of documents and the actions, statements and conversations of others are reported herein, they are reported in substance and in part.

THE E-Rate Program

16. I have spoken with an attorney employed by a private, not-for-profit company called the Universal Service Administration Company ("USAC"), and have reviewed documents and materials provided to me by that attorney and her staff. From these sources, I have learned the following, among other things:

a. In around 1998, the Federal government implemented a program to provide subsidies to schools and libraries in financial need for use in the purchase and installation of internet access and telecommunications services as well as internal computer and communication networks (the "E-Rate Program"). The program is administered under contract with the Government by USAC and a subdivision of USAC called the "Schools and Libraries

Division" ("SLD"). The Federal Communications Commission ("FCC") oversees and regulates USAC and SLD.¹

b. One of the principal objectives of the E-Rate Program is to encourage economically disadvantaged schools to create and upgrade their internet and communications infrastructure, and provide their students with access to the internet as a learning tool. To further this objective, the Federal government has, since the inception of the program, offered to pay a large portion of the cost of each participant school's infrastructure enhancements, where such schools meet the E-Rate Program's eligibility requirements.

c. One of the Program's core eligibility requirements is that each applicant school pay some percentage of the cost of the infrastructure enhancement. The percentage that the applicable school must pay ranges from 10% to 80%, depending on particular characteristics related to the neediness of each applicant institution (hereinafter, the school's "Undiscounted Share"). The Government pays the balance of that cost, which ranges from as low as 20% to as high as 90%. Among the reasons why the applicant schools are required to pay a portion of the costs are: (i) to ensure that schools have a financial incentive to negotiate for the most favorable prices, so that the government's spending under the program is not wasteful; and (ii) to ensure that schools only purchase infrastructure and equipment that they truly need.

CONNECT 2 INTERNET

17. According to public records and witnesses whom I have interviewed, C2I is a vendor of internet and communications infrastructure and related services. JOHN ANGELIDES, the defendant, is the owner and principal officer of C2I. At the relevant times described below, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, were employed by C2I.

18. According to USAC records:

a. A number of schools in the New York City and New Jersey area have applied for and received funding from the E-Rate Program to establish, enhance and/or upgrade those schools' internet infrastructure.

USAC administers the Universal Service Fund under regulations promulgated by the FCC.

b. In the period from approximately July 1998 to the present, C2I was the vendor of goods and services for more than 200 schools participating in E-Rate. Most of these schools purported to participate at a 90% discount rate (i.e., the discount rate associated with the most financially disadvantaged schools), meaning that the schools were obligated to pay 10% of the cost of goods and services, and C2I sought payment from the Government for the remaining 90%.

c. In the period from approximately July 1998 through approximately June 2001, the Government actually paid C2I more than \$9 million in E-Rate monies for goods and services that C2I provided to approximately 136 schools.

SUMMARY OF THE FRAUDULENT SCHEME

19. As described more fully below, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others not named as defendants herein, devised and carried out a scheme to obtain E-Rate funds for goods and services that C2I provided to various schools on the false pretense that the schools would pay or had paid their required share of the costs of those goods and services. In fact, the defendants charged the schools nothing for these goods and services and assured the schools that they would never have to pay for the goods and services. In this way, the defendants were able to sell almost limitless quantities of E-Rate eligible goods and services to schools across the New York City area, with little or no control on the price they charged, and impose the entire cost on the Government.

20. The defendants and their co-conspirators went to great length to deceive the schools and induce them to participate in the scheme. They also engaged in elaborate efforts to deceive the Government into believing that the schools had paid their Undiscounted Share. As detailed below, the defendants did so by: (a) falsely representing to school administrators that the schools' Undiscounted Share would be covered by "outside grants" or "outside sources of funding" donated to C2I for that purpose; (b) asking the schools to write checks payable to C2I and agreeing not to cash the checks; (c) asking the schools to write checks payable to C2I and agreeing to return the money in cash or by check payable to the schools or their designees; (d) creating back-dated invoices and other phony billing documents to give the false appearance that C2I billed the schools for their Undiscounted Share; (e) concealing communications in which the defendants assured the schools that they would not have to pay for any of the goods and services being supplied by C2I; and (f) attempting to persuade school administrators to lie to government investigators and give them

false and misleading documents, all designed to conceal the scheme and enable the defendants to collect more money from the E-Rate

THE INVESTIGATION

21. In or about the Spring and Summer 2001, SLD commenced an investigation into C2I's compliance with the E-Rate Program rules. Beginning in the Spring 2001, analysts and investigators working for USAC and SLD began contacting participant schools and collecting records of their dealings with C2I and its representatives. In or about the Fall of 2001, the FBI commenced an independent criminal investigation of the activities of C2I, which has generated further evidence concerning C2I and the schools to which it provided goods and services.

THE AL NOOR SCHOOL

22. According to USAC and SLD records:

a. The Al Noor School, located in Brooklyn, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. Al Noor School participated in the E-Rate Program with a 90% discount rate, meaning that it was eligible to receive from the E-Rate Program 90% of the costs of the eligible computer and internet services and equipment provided by C2I.

c. For the fiscal year of the E-Rate Program covering the period from July 2000 through June 2001 (hereinafter, "Funding Year 3"),² C2I applied for E-Rate funds totaling approximately \$851,000 - purportedly 90% of the total costs - for E-Rate eligible goods and services to be provided by C2I to the Al Noor School. The full amount requested was approved and paid to C2I by USAC.

² The E-Rate Program was initiated in 1998, and Funding Years 1 and 2 related to the periods between July 1998 through June 1999, and July 1999 through June 2000, respectively.

23. I have interviewed a school administrator of the Al Noor School ("CW-1")³, who advised me of the following, in substance and in part:

a. In or about 1999 and early 2000, GARY BLUM and OSCAR ALVAREZ, the defendants, met with CW-1 numerous times. During these meetings, BLUM and ALVAREZ solicited CW-1 to retain C2I as Al Noor School's vendor for the E-Rate Program. In doing so, they represented that, if Al Noor School retained C2I, Al Noor School could obtain hundreds of thousands of dollars worth of internet-related services and equipment without paying any money. When asked how this could be accomplished, BLUM and ALVAREZ provided vague explanations, suggesting they would find "donations" to cover Al Noor School's 10% Undiscounted Share or some other means of "taking care of" the school's obligation.

(b) In or about July 2001, JOHN ANGELIDES, the defendant, met with CW-1 and confirmed C2I's earlier promise that Al Noor School would not have to pay its 10% Undiscounted Share. ANGELIDES said, however, that he wanted Al Noor School to help ANGELIDES make it appear to the SLD that Al Noor School was in fact paying its 10% to C2I. ANGELIDES instructed CW-1 to pay the 10% amount to C2I by check and promised to refund the full amount to the school by other means. CW-1 agreed to this arrangement.

(c) In or about August and September 2001, Al Noor School paid C2I its 10% share -- approximately \$94,000 -- in two separate checks. Shortly afterwards, JOHN ANGELIDES, the defendant, refunded those monies, giving CW-1 an envelope containing approximately \$20,000 cash, and checks to cover the balance. One of those checks was in the approximate amount of \$65,000 and made payable to the Islamic Society of Bay Ridge ("ISBR"), a charitable organization whose president sat on the board of directors of Al Noor. CW-1 made arrangements with ISBR for the ISBR to forward to Al Noor the funds that it received from C2I.

24. I have reviewed a copy of a canceled check in the amount of approximately \$65,194, payable to ISBR, drawn on an account of C2I, and signed by JOHN ANGELIDES, the defendant. I

CW-1 has provided information and assistance to the Government in the hope of receiving a reduced sentence for his/her participation in a fraudulent scheme to obtain Government funds under the E-Rate Program. The information provided by CW-1 has been reliable, and has been corroborated by independent information, as described more fully below.

have also reviewed bank records of ISBR which show that at least approximately \$74,660 was paid by C2I to ISBR, in two checks, in or about September and November 2001.

25. I have interviewed an analyst for SLD, who provided me with documents and other information. The information reveals the following, in substance and in part:

(a) In or about August 2001, in conversations with JOHN ANGELIDES, the defendant, the analyst at least twice requested documentary proof that C2I had billed Al Noor School for its Undiscounted Share and that the Al Noor School had paid that amount.

(b) On or about August 30, 2001, in response to these requests, JOHN ANGELIDES, the defendant, faxed from Staten Island, New York, to the SLD analyst in New Jersey, copies of a check from Al Noor School in the approximate amount of \$85,194 payable to C2I and an invoice purportedly showing that ~~Al Noor School~~ had billed Al Noor School for approximately \$94,660. On the fax cover sheet, ANGELIDES wrote, in part, "Enclosing Invoice & Check for the schools proportionate amount." The fax cover sheet included a "CC" to GARY BLUM, the defendant.

(c) On or about September 7, 2001, JOHN ANGELIDES, the defendant, faxed from Staten Island, New York, to the SLD analyst in New Jersey, a copy of a check from Al Noor School to C2I in the approximate amount of \$9,466. On the fax cover sheet, ANGELIDES wrote, in relevant part: "Finally, we picked up the last of the checks from the Al Noor Schools, which should clear the way for us to get paid." That fax cover sheet included a "CC" to GARY BLUM, the defendant.

SAINT ROCCO VICTORIA SCHOOL

26. According to USAC and SLD records:

a. The Saint Rocco Victoria School, located in Newark, New Jersey, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. Saint Rocco Victoria School participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximate \$349,405 in E-Rate funds for goods and services to be provided to the Saint Rocco Victoria School. This amount purported to be 90% of the total price charged

to Saint Rocco Victoria School for E-Rate eligible goods and services. The full amount requested was approved and paid to C2I by USAC.

27. I have interviewed a school administrator of Saint Rocco Victoria School ("St. Rocco Administrator 1"), who as advised me of the following, in substance and in part:

a. In or about the Fall 1999, GARY BLUM and OSCAR ALVAREZ, the defendants, told St. Rocco Administrator 1 that, if Saint Rocco Victoria School retained C2I as its vendor for the E-Rate Program, the School could obtain hundreds of thousands of dollars worth of internet-related services and equipment without paying any money. When St. Rocco Administrator 1 asked BLUM and ALVAREZ about how this could be accomplished in light of the requirement that the school pay its 10% Undiscounted Share, BLUM and ALVAREZ stated without elaboration that C2I would find "outside funding" or "grants" that would cover the school's 10% portion.

b. In reliance on these representations, Saint Rocco Victoria School applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the School been required to pay its 10% share.

(c) In order to protect Saint Rocco Victoria School, St. Rocco Administrator 1 asked that C2I confirm in writing its promise to cover the school for any costs. In response, JOHN ANGELIDES, the defendant, provided a letter to St. Rocco Administrator 1 that confirmed this promise.

(d) St. Rocco Administrator 1 did not expect to receive any invoices from C2I for services or equipment related to the E-Rate Program. However, in the Spring or Summer of 2001 (around the time when the SLD commenced an investigation of C2I's compliance with the E-Rate Program rules), JOHN ANGELIDES, the defendant, advised St. Rocco Administrator 1 that C2I would be billing the School for its 10% Undiscounted Share of the internet access service cost. ANGELIDES explained that he needed to issue an invoice for this amount because of a lag between when C2I applied for reimbursement and when C2I received payment from the Government. ANGELIDES represented that, if the school paid the invoice, C2I would return the full amount of the payment at a later date. Shortly afterwards, as per this arrangement with ANGELIDES, St. Rocco Administrator 1 provided C2I with a check in the amount set forth in an invoice supplied by ANGELIDES. Later in 2001, C2I returned the money to the Saint Rocco Victoria School, as ANGELIDES had promised.

28. I have interviewed another school administrator of Saint Rocco Victoria School ("St. Rocco Administrator 2"), who advised me that GARY BLUM and OSCAR ALVAREZ, the defendants, also told St. Rocco Administrator 2 that Saint Rocco Victoria School could obtain internet-related services and equipment from C2I without paying any money.

29. ~~9228~~ gave me a copy of an agreement dated January 11, 2000. The agreement is in the form of a letter from St. Rocco Administrator 1 to JOHN ANGELIDES, the defendant, and is signed by both St. Rocco Administrator 1 and ANGELIDES. In the letter, St. Rocco Administrator 1 states, in relevant part, (a) that "[i]t is my understanding that St Rocco School will not be responsible for any hidden cost in the grant proposal made to us by" C2I, (b) that "[i]t is also my understanding that St. Rocco will receive outside grant monies to pay 10% of the total cost of the project," and (c) that "it is my understanding that in accepting the [C2I] proposal there is absolutely no cost to the school."

30. I have reviewed copies of the following documents: (a) an invoice dated June 4, 2001, from C2I to St. Rocco Victoria School, in the amount of \$2,268, purporting to be regarding "the School's proportionate amount due to Connect@ (sic) for E-Rate service from July 1, 2000 thru June 30, 2001"; (b) a check dated June 10, 2001, signed by St. Rocco Administrator 1 and payable to C2I, in the amount of \$2,268; and (c) two checks dated September 24, 2001, signed by JOHN ANGELIDES, the defendant, and payable to St. Rocco School, one in the amount of \$1,000 and the other in the amount of \$1,268 (totaling \$2,268).

31. USAC records reflect that in or about June, July and August 2001, USAC sought from C2I and St. Rocco Victoria School proof that C2I had billed St. Rocco Victoria School for its Undiscounted Share, and that the 10% had been paid by St. Rocco Victoria School. In response, C2I transmitted to USAC's analysts several documents by fax:

a. In one fax, sent from Staten Island, New York to New Jersey, a fax cover sheet dated July 30, 2001 and entitled "ST. ROCCO SCHOOL," contains a notation from JOHN ANGELIDES, the defendant, stating "Enclosing Invoices requested for schools proportionate amount." GARY BLUM, the defendant, is listed as "CC" on the fax. Transmitted with the cover sheet, among other things, was a copy of the purported June 4, 2001, invoice described in the previous paragraph.

b. In another fax, sent on or about September 4, 2001, from C2I in Staten Island, New York to New Jersey, C2I enclosed a

copy of the \$2,268 check to C2I signed by St. Rocco Administrator 1 described in the previous paragraph.

CHILDREN'S STORE FRONT SCHOOL

32. According to USAC and SLD records:

a. The Children's Store Front School ("CSFS"), located in New York, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. CSFS participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$491,447 in E-Rate funds for goods and services to be provided to CSFS. This amount purported to be 90% of the total price charged to CSFS for E-Rate eligible goods and services. The full amount requested was approved and paid to C2I by USAC.

33. I have interviewed a school administrator of CSFS ("CSFS Administrator 1"), who advised me, in substance and in part:

a. In or about December 1999, CSFS Administrator 1 was introduced to JOHN DOTSON, the defendant, by an administrator ("Foundation Administrator 1") of a charitable foundation known as the Gilder Foundation. DOTSON offered to assist CSFS as a "consultant" regarding the opportunities of the E-Rate Program. DOTSON suggested that CSFS retain C2I as its E-Rate vendor and repeatedly assured CSFS Administrator 1 that CSFS would not have to pay anything for the equipment and services that it would receive from C2I.

b. CSFS Administrator 1 questioned DOTSON concerning the school's obligation to pay 10% of the costs, emphasizing that CSFS could not afford to pay 10% of an expensive project. In response, DOTSON explained that Gilder Foundation would cover CSFS's share of the costs by donating money for CSFS's benefit.

c. In reliance on these representations, CSFS applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share of the costs.

d. In or around the Summer of 2000, an SLD analyst contacted CSFS and asked for proof that the school had budgeted

sufficient funds to cover its 10% Undiscounted Share. To comply with this request, CSFS Administrator 1 contacted Foundation Administrator 1 at the Gilder Foundation and asked for proof, such as a letter of commitment, that the Gilder Foundation had agreed to donate funds that would cover the school's share of the costs. Foundation Administrator 1, however, said that he/she knew nothing about such a commitment.

e. CSFS Administrator 1 then contacted JOHN DOTSON, the defendant, and informed him of CSFS Administrator 1's conversation with Foundation Administrator 1. DOTSON responded that he would "take care of it." Approximately one day later, CSFS Administrator 1 was told that a commitment letter was available, and CSFS Administrator 1 picked up the letter.

f. In or about the Fall of 2001, the SLD requested proof that CSFS had paid its Undiscounted Share. After this request was received, JOHN ANGELIDES, the defendant, met with CSFS Administrator 1. During the meeting, ANGELIDES showed CSFS Administrator 1 an invoice to CSFS in the approximate amount of \$52,000, and asked for CSFS to certify its receipt of the invoice and write a check to C2I in the amount listed on the invoice. CSFS Administrator 1 expressed surprise at this request, telling ANGELIDES that CSFS had been led to believe that there would be no cost to the school for the goods and services provided by C2I. ANGELIDES responded that there was nothing to be concerned about and assured CSFS Administrator 1 that his request for a certification and check "would not cost the school anything." ANGELIDES explained that, if CSFS Administrator 1 wrote a check as ANGELIDES had requested, ANGELIDES would write a check back to CSFS in the same amount. CSFS Administrator 1 told ANGELIDES that he could not comply with ANGELIDES's requests, and directed ANGELIDES to discuss this matter with CSFS Administrator 1's supervisor, another CSFS administrator ("CSFS Administrator 2").

g. In or about the Spring of 2002, CSFS Administrator 1 asked C2I to provide CSFS with a copy of whatever information C2I had provided to the SLD as proof that CSFS's Undiscounted Share had been paid. In response, CSFS received copies of two checks written from DOTSON to C2I. CSFS did not understand why the checks were written by DOTSON, rather than the Gilder Foundation.

34. I have interviewed CSFS Administrator 2, who advised me of the following, in substance and in part:

a. In or about the Fall of 2001, JOHN ANGELIDES, the defendant, met with CSFS Administrator 2 at the request of CSFS Administrator 1. During this meeting, ANGELIDES told CSFS

Administrator 2 that SLD was seeking proof that CSFS had paid its 10% Undiscounted Share. ANGELIDES proposed two arrangements that would generate false proof that CSFS had paid this amount. As ANGELIDES explained, CSFS could either (1) write a check to C2I which ANGELIDES would "tear up"; or (2) write a check to C2I which ANGELIDES would exchange for a check payable to CSFS in the same amount. CSFS Administrator 2 told ANGELIDES that CSFS would not be a party to either arrangement.

b. After his meeting with JOHN ANGELIDES, the defendant, CSFS Administrator 2 contacted JOHN DOTSON, the defendant, and asked whether the Gilder Foundation was, in fact, paying for CSFS's 10% share of the cost of goods and services provided by C2I. In response, DOTSON said that Gilder Foundation already had paid CSFS's 10% share. Afterwards, CSFS Administrator 2 contacted ANGELIDES and related to ANGELIDES the conversation CSFS Administrator 2 had just finished with DOTSON. CSFS Administrator 2 asked ANGELIDES to speak with DOTSON, and suggested that C2I simply show the SLD proof of Gilder Foundation's payment on behalf of CSFS as evidence that CSFS had satisfied its obligation to pay 10 percent.

35. I have reviewed a copy of a letter dated August 25 (with no year) signed by Foundation Administrator 1 on behalf of the Gilder Foundation and addressed to CSFS and CSFS Administrator 1. The letter states, among other things: "Please be advised that the Gilder Foundation will continue its support of the Library, the new curriculum focus on research and computer literacy. We will honor our pledge of grant support of \$58,000. . . . E-Rate will help the school with its heightened focus on different learning styles and ways to acquire information." A fax header on the copy sent to USAC reflects that it was sent to USAC on or about September 5, 2000.

36. I have reviewed bank records of C2I reflecting that JOHN DOTSON, the defendant, was paid on multiple occasions in 2001 by C2I relating to E-Rate participant schools. Moreover, during the course of CSFS's dealings with DOTSON, CSFS Administrator 1 told me that he/she once suggested to DOTSON that CSFS was considering switching internet service providers, away from C2I. DOTSON responded "If you work with me, you work with Connect 2."

37. An analyst for the SLD advised me that, in or about September and October 2001, he/she sought from JOHN ANGELIDES, the defendant, proof that C2I had billed CSFS for its Undiscounted Share, and that the 10% had been paid by CSFS. In response, ANGELIDES transmitted to the SLD analyst several documents by fax from Staten Island, New York, to New Jersey. The fax cover sheet,

which I have reviewed, is dated October 11, 2001 and entitled "CHILDRENS STORE FRONT." On the cover sheet is a notation reading as follows: "Enclosing Invoice, Checks & equipment list for the schools proportionate amount as requested." GARY BLUM and OSCAR ALVAREZ, the defendants, are listed as "CC" on the fax. Transmitted with the cover sheet were copies of the following documents, among others:

- (a) a check dated September 28, 2001, from the personal account of JOHN DOTSON, the defendant, in the approximate amount of \$52,731, payable to C2I, with a notation that reads "Donation to Children's Store Front School for E-Rate";
- (b) a check dated September 28, 2001, from the personal account of DOTSON, in the approximate amount of \$2,268, payable to C2I, with a notation that reads "Donation to Children's Store Front School for E-Rate";
- c. a purported invoice dated September 4, 2001, that showed a charge to CSFS of approximately \$52,731, and a notation "ATTN: JOHN DOTSON," purporting to be regarding "the Schools proportionate amount due to Connect@ (sic) for E-Rate service - internal connections - see contract filed with SLD"; and
- d. another purported invoice that showed a charge to CSFS of approximately \$2,268, and a notation "ATTN: JOHN DOTSON," purporting to be regarding "the Scholols [sic] proportionate amount due to Connect@ (sic) for E-Rate service from July 1, 2000 thru June 30, 2001."

38. I have reviewed bank records of C2I that reflect that on or about September 28, 2001, the checks from JOHN DOTSON, the defendant, referred to in subparagraphs (a) and (b) of the previous paragraph were deposited into C2I's bank account. The total amount of those checks was approximately \$54,999. Other bank records and canceled checks show, however, that, on or about October 10, 2001, two certified checks totaling approximately \$54,999 were written by JOHN ANGELIDES, the defendant, on behalf of C2I, and made payable to JOHN DOTSON, the defendant. Those checks were deposited into the personal bank account of DOTSON on or about October 11, 2001. Thus, it appears that the purported contribution to CSFS in the amount of \$54,999 was a sham: DOTSON, not the Gilder Foundation, wrote the checks; and C2I returned the money to DOTSON shortly after DOTSON paid it.

(39.) On or about September 23, 2002, pursuant to my

instructions, CSFS Administrator 2 telephoned JOHN ANGELIDES, the defendant. In the conversation that followed, which was tape-recorded with the consent of CSFS Administrator 2, CSFS Administrator 2 discussed with ANGELIDES the following, in substance and in part:

a. Regarding the checks written by JOHN DOTSON, the defendant, to C2I purportedly on behalf of CSFS, CSFS Administrator 2 stated that it was her understanding that the funds to cover CSFS's 10% share of the E-Rate Program costs were supposed to come from the Gilder Foundation.

b. ANGELIDES stated that this was his "understanding too," and added that "when the time came where, you know, a requirement was made by the FCC that we need to show a canceled check, remember there was a period about a week or so, you and I could not, uh, produce that document. John [DOTSON] went ahead and, and generated this check and he gave it to me and says that is for the Children's Store Front funding." ANGELIDES went on to say, "I accepted it because we done the work and we had to get paid and the only way we could get paid is somebody showing proof that the, the payment was made for the ten percent."

40. I have interviewed Foundation Administrator 1, who advised me that the Gilder Foundation never paid any money to C2I to "cover" any portion of the cost of the E-Rate Program to CSFS.

ASSOCIATION for the HELP of RETARDED CHILDREN

41. According to USAC and SLD records:

a. A number of schools that participated in the E-Rate Program were run by the Association for the Help of Retarded Children ("AHRC"). AHRC for a time operated three schools, one in Brooklyn, one in the Bronx, and one in Manhattan, and the student bodies of all three were subsequently consolidated into one school located in Brooklyn, New York. AHRC participated in the E-Rate Program using C2I as its E-Rate vendor.

b. AHRC participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$768,087 in E-Rate funds for goods and services to be provided to AHRC. AHRC did not receive approval for all the funding sought, but received approval for a less extensive funding package, in the amount of approximately \$326,384. This amount purported to be 90% of the total price to be

charged to AHRC for E-Rate eligible goods and services. The full amount of \$326,384 was paid to C2I by USAC.

42. I have interviewed a former school administrator of AHRC ("AHRC Administrator 1"), who advised me of the following, in substance and in part:

a. In or about January 2000, AHRC Administrator 1 spoke with JOHN ANGELIDES, the defendant, who told AHRC Administrator 1 that there would be "no cost" to AHRC related to the E-Rate Program for as long as AHRC retained C2I as its service provider under the Program. Some time later, GARY BLUM, the defendant, confirmed that same representation, explaining that "outside sources" of funding found by C2I would cover AHRC's 10% Undiscounted Share.

b. In order to protect AHRC, AHRC Administrator 1 confirmed his/her understanding of ANGELIDES's "no cost" promise, and later, AHRC Administrator 1 requested written confirmation on C2I letterhead of ANGELIDES's and BLUM's promise that the school would not incur any costs for participating in the Program.

c. In reliance on those representations by C2I, AHRC applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share.

43. AHRC gave me a copy of a letter dated January 14, 2000, addressed from AHRC Administrator 1 to JOHN ANGELIDES, the defendant, at C2I, stating, among other things, "This letter is to confirm our conversation on January 13, 2000. According to our conversation, AHRC is absolved from any costs associated with the E-Rate proposal, (specifically, the 10% school costs)."

44. AHRC also gave me a copy of a letter dated January 12, 2001, signed by GARY BLUM, the defendant, in his capacity as "Director of Marketing" for C2I, addressed to AHRC Administrator 1. The letter states, in relevant part: "I am pleased to inform you that Connect (sic) has been able to secure the 10% portion of the E-Rate funding through, grants and donations. AHRC will have no liabilities for this portion of the costs."

45. I interviewed another administrator of AHRC ("AHRC Administrator 2"), who has advised me of the following, in substance and in part:

a. In or about October 2001, JOHN ANGELIDES, the defendant, told AHRC Administrator 2 that the government was

requesting proof from AHRC that it had paid its Undiscounted Share. ANGELIDES acknowledged the prior arrangements with AHRC that AHRC was absolved from all costs, and ANGELIDES made two suggestions to AHRC Administrator 2, each of which ANGELIDES stated was an attempt by him to keep C2I's end of the bargain so that AHRC would incur no expense: (1) that AHRC should write a check to C2I in the amount of \$2,268, which ANGELIDES would then endorse, photocopy, and immediately give back to AHRC, or (2) that AHRC should write a check to C2I and C2I would write a check to AHRC in the same amount, a practice that ANGELIDES referred to as a "dummy check exchange."

b. AHRC Administrator 2 said he did not want to be a party to either of the arrangements proposed by JOHN ANGELIDES, the defendant. AHRC Administrator 2 proposed a different arrangement. He/she told ANGELIDES that AHRC would pay to C2I the amount that ANGELIDES needed to show the Government that AHRC had paid. However, AHRC Administrator 2 said that, to satisfy its moral obligation to live up to its earlier representations to AHRC, C2I should make a donation to a charitable organization that provides financial support to AHRC. ANGELIDES agreed to this arrangement.

46. I have reviewed a fax communication on C2I stationery from JOHN ANGELIDES, the defendant, in Staten Island, New York, to AHRC Administrator 2 in New York, New York. On the fax cover sheet, which is dated October 15, 2001, ANGELIDES wrote: "This is the request from the Schools + Libraries Div. They need to see a cancelled check for AHRC. Total amount is \$22680, 10% = \$2,268. Need to do this ASAP." Also enclosed was a fax communication on SLD stationery, dated August 27, 2001, addressed to ANGELIDES. The SLD's fax to ANGELIDES contains a notation stating: "What we still need - Canceled check/letter - AHRC BKLYN."

47. I have reviewed a fax communication, dated November 21, 2001, from JOHN ANGELIDES, the defendant, in Staten Island, New York, to an SLD analyst in New Jersey. The cover sheet is entitled "AHRC SCHOOL" and bears the following notation: "Enclosing Certification, Invoice & copy of check for school as requested." GARY BLUM and OSCAR ALVAREZ, the defendant, are identified as "CC" recipients of the fax. Transmitted with the cover sheet were copies of the following documents, among others: (a) a check dated November 14, 2001, from AHRC, in the approximate amount of \$2,268 payable to C2I; and (b) a purported invoice dated June 11, 2001, that showed a charge to School 4 of approximately \$2,268, purporting to be regarding "the SCHOOLS proportionate amount due to Connect2 for the E-Rate service from July 1, 2000 thru June 30, 2001."

48. I have reviewed a copy of a check in the amount of \$2,668, from C2I and signed by JOHN ANGELIDES, the defendant, dated November 13, 2001. made payable to "AHRC NYC Foundation."⁴ AHRC Administrator 2 told me that this check was sent to him/her with an explanatory note, a copy of which was shown to me. The note, initialed by ANGELIDES, states, in relevant part: "Small contribution from Connect2Internet."

ISLAMIC ELEMENTARY SCHOOL

49. According to USAC and SLD records:

a. Islamic Elementary School ("IES"), located in Queens, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. IES participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$1,283,357 in E-Rate funds for goods and services to be provided to IES. IES did not receive approval for all the funding sought, but received approval for a less extensive funding package, in the amount of approximately \$645,047. This amount purported to be 90% of the total price to be charged to IES for E-Rate eligible goods and services. The full amount of \$645,047 was paid to C2I by USAC.

50. I have interviewed an administrator of IES ("IES Administrator 1"), who advised me of the following, in substance and in part:

a. In or about December 1999 and early January 2000, GARY BLUM and OSCAR ALVAREZ, the defendants, told IES Administrator 1 that, if IES retained C2I as its vendor for the E-Rate Program, the school could obtain hundreds of thousands of dollars worth of internet-related services and equipment at no cost to the school. BLUM and ALVAREZ explained that C2I would find "outside funding" or "grants" to cover the school's obligation to pay 10% of the cost of E-Rate eligible goods and services.

b. IES Administrator 1 asked that C2I confirm in

AHRC Administrator 2 told me that the \$400 difference between the check AHRC wrote to C2I and the check C2I wrote to the AHRC NYC Foundation was to pay for two tickets to a charity fundraising banquet for which ANGELIDES purchased seats.

writing that IES would have no obligation to pay any money for E-Rate eligible goods and services. Afterwards, IES Administrator 1 received a letter from JOHN ANGELIDES, the defendant, that confirmed this representation.

c. In reliance on these representations, IES applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share.

d. IES never received any invoice from C2I and never paid any money to C2I for the internet services and equipment that C2I supplied to IES.

51. IES provided me with a copy of an agreement dated January 18, 2000, between C2I and IES. The agreement is in the form of a letter from JOHN ANGELIDES, the defendant, to IES Administrator 1 of IES, and is signed by both individuals. The letter was also initialed by GARY BLUM, the defendant, on or about January 25, 2000. The agreement states, in relevant part: "It is our agreement that Islamic Elementary School will not be responsible for any cost in the proposal (sic) made to Islamic Elementary School by Connect2. It is also our agreement that Islamic Elementary School will receive an outside grant to subsidize the school's portion of the project. Therefore, it is our agreement that In (sic) accepting the Connect2 proposal, there is absolutely no cost to the school."

52. IES also provided me with a letter, dated September 18, 2002, from the FCC to IES Administrator 1. The letter states, in relevant part, that the Office of Inspector General of the FCC would be conducting an on-site review of IES for the purpose of assessing whether IES was complying with the SLD's rules and regulations, whether the equipment supplied and the services rendered to IES were consistent with what was billed under the E-Rate Program, and whether payments were made by IES to its service provider (i.e., C2I).

53. IES Administrator 1 advised me of the following, in substance and in part:

a. When he/she received the letter from the FCC, IES Administrator 1 asked JOHN ANGELIDES, the defendant, to provide him/her with copies of certain paperwork.

b. In or about early October 2002, ANGELIDES and OSCAR ALVAREZ, the defendant, visited the school. In addition to the paperwork that IES Administrator 1 had requested, ANGELIDES gave